

RELATING TO CREDITS AGAINST THE VICTORY TAX

OCTOBER 18 (legislative day, OCTOBER 12), 1943.—Ordered to be printed

Mr. GEORGE, from the Committee on Finance, submitted the following

REPORT

[To accompany H. R. 3381]

The Committee on Finance, to whom was referred the bill (H. R. 3381) relating to credits against the Victory tax, having had the same under consideration, unanimously report favorably thereon without amendment and recommend that the bill do pass.

The purpose of the bill is to enable the Treasury Department to make a material simplification of the statement of the Victory tax in the return forms to be filed by taxpayers for the taxable year 1943. The bill does not change the net burden of the Victory tax for any taxpayer.

The bill amends the provisions of the Internal Revenue Code relating to credits against the Victory tax now contained in sections 453 and 454 of the code. Under the bill the entire credit is currently allowed as a credit against the Victory tax for the taxable year, and no post-war credit remains for credit or refund after the date of the cessation of hostilities.

The credits provided by sections 453 and 454 of the code are of such a nature and in such amounts that the great majority of taxpayers are entitled under existing law to claim the full credit against their taxes for the year 1943. The credit may be claimed currently under existing law to the extent of premiums paid on certain life insurance, payments constituting debt reduction, and purchases of obligations of the United States prescribed by regulations. Under regulations prescribed by the Secretary, United States Savings bonds, series E, F, and G, constitute obligations of the United States for the purpose of the Victory-tax credit. Accordingly it is believed that practically all taxpayers will have insurance premiums, debt reductions, or bond purchases sufficient to take advantage of the credit currently. Thus, since in all but the very small minority of cases the credit would in any event be taken currently, it was believed advisable to require current application of the credit for the taxable year, and thereby make practicable the use of a shorter and simpler annual tax return

for 1943. In the interest, therefore, of simplification, and without any substantial loss in current revenue, the amendment should be enacted in advance of the 1943 revenue bill to allow ample time to prepare the tax forms for the year 1943 to be filed March 15, 1944, which have to be printed and distributed early in 1944.

Section 1 of the bill amends section 453 of the code to provide credits for all taxpayers to the same extent as is now provided in the case of post-war credits or refunds under section 454 of the existing law. To remove any possible doubt, the section provides that the credit is allowed in the case of estates and trusts and, in such cases, is subject to the same limitations as those applicable to a single person without dependents.

Section 2 (a) of the bill repeals section 454, which provides for a post-war credit or refund of the Victory tax. Section 2 (b) is a technical amendment to section 34 of the code, merely correcting a cross-reference. Section 2 (c) amends section 456 of the code to omit the reference to section 454, and to correct a technical omission in the Current Tax Payment Act of 1943 by providing that the credit for the tax withheld at the source under such act shall be disregarded in computing the 90 percent limitation. For taxable years beginning in 1943, the limitation provided by section 456 of the code is computed without regard to the additions to the 1943 tax required by section 6 of the Current Tax Payment Act of 1943, and a Victory tax will be payable even though such additions make the total tax greater than 90 percent of the net income of the taxpayer. Section 456 of the code is also clarified by reference to the tax imposed by chapter 1 (excluding the Victory tax) in lieu of the tax imposed by code sections 11 (normal tax) and 12 (surtax).

[H. Rept. No. 723, 78th Cong., 1st sess.]

The Committee on Ways and Means, to whom was referred the bill (H. R. 3381) relating to credits against the Victory tax, having had the same under consideration, report it back to the House without amendment and recommend that the bill do pass.

The purpose of the bill is to enable the Treasury Department to make a material simplification of the statement of the Victory tax in the return forms to be filed by taxpayers for the taxable year 1943. The bill does not change the net burden of the Victory tax for any taxpayer.

The bill amends the provisions of the Internal Revenue Code relating to credits against the Victory tax now contained in sections 453 and 454 of the code. Under the bill the entire credit is currently allowed as a credit against the Victory tax for the taxable year, and no post-war credit remains for credit or refund after the date of the cessation of hostilities.

The credits provided by sections 453 and 454 of the code are of such a nature and in such amounts that the great majority of taxpayers are entitled under existing law to claim the full credit against their taxes for the year 1943. The credit may be claimed currently under existing law to the extent of premiums paid on certain life insurance, payments constituting debt reduction, and purchases of obligations of the United States prescribed by regulations. Under regulations prescribed by the Secretary, United States Savings bonds, series E, F, and G constitute obligations of the United States for the purpose of the Victory-tax credit. Accordingly it is believed that practically all taxpayers will have insurance premiums, debt reductions, or bond purchases sufficient to take advantage of the credit currently. Thus, since in all but the very small minority of cases the credit would in any event be taken currently, it was believed advisable to require current application of the credit for the taxable year, and thereby make practicable the use of a shorter and simpler annual tax return form for 1943. In the interest, therefore, of simplification, and without any substantial loss in current revenue, the amendment should be enacted in advance of the 1943 revenue bill to allow ample time to prepare the tax forms for the year 1943 to be filed March 15, 1944, which have to be printed and distributed early in 1944.

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Section 2 (a) of the bill repeals section 454, which provides for a post-war credit or refund of the Victory tax. Section 2 (b) is a technical amendment to section 34 of the code, merely correcting a cross-reference. Section 2 (c) amends section 456 of the code to omit the reference to section 454, and to correct a technical omission in the Current Tax Payment Act of 1943 by providing that the credit for the tax withheld at the source under such act shall be disregarded in computing the 90-percent limitation. Section 456 of the code is also clarified by reference to the tax imposed by chapter 1 (excluding the Victory tax) in lieu of the tax imposed by code sections 11 (normal tax) and 12 (surtax).

CHANGES IN EXISTING LAW

In compliance with paragraph 2a of rule XIII of the rules of the House of Representatives, changes in the Internal Revenue Code made by the bill, as introduced, are shown as follows (existing law proposed to be omitted is enclosed in black brackets, new matter is printed in italics, existing law in which no change is proposed is shown in roman):

SEC 34. CREDITS AGAINST VICTORY TAX.

For credits against Victory tax, see [sections 453 and 454] *section 453.*

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[SEC. 453. CREDIT AGAINST VICTORY TAX.

[(a) ALLOWANCE OF CREDIT.—There shall be allowed as a credit against the Victory tax for each taxable year:

[(1) The amount paid by the taxpayer during the taxable year as premiums on life insurance, in force on September 1, 1942, upon his own life, or upon the life of his spouse, or upon the life of any dependent of the taxpayer specified in section 25 (b) (2) (A); and the amount paid during the taxable year as premiums on life insurance which is a renewal or conversion of such life insurance in force on September 1, 1942, to the extent that such premiums do not exceed the premiums payable on such life insurance in force on September 1, 1942.

[(2) The amount by which the smallest amount of indebtedness of the taxpayer outstanding at any time during the period beginning September 1, 1942, and ending with the close of the preceding taxable year, exceeds the amount of indebtedness of the taxpayer outstanding at the close of the taxable year.

[(3) The amount by which the amount of obligations of the United States owned by the taxpayer on the last day of the taxable year exceeds the greater of (A) the amount of such obligations owned by the taxpayer on December 31, 1942, or (B) the highest amount of such obligations owned by the taxpayer on the last day of any preceding taxable year ending after December 31, 1942. As used in this paragraph (i) the term "owned by the taxpayer" shall include the amount of the obligations owned solely by the taxpayer and one-half of the amount of the obligations owned jointly by the taxpayer with one other person, but shall not include such obligations acquired by the taxpayer by gift, or inheritance, or otherwise than by purchase; (i) the term "obligations of the United States" means such obligations of the United States as the Secretary may by regulations prescribe, and as are purchased in such manner and under such terms and conditions as he may specify; and (iii) the term "amount of obligations of the United States" means the amount paid for such obligations.

[(b) LIMITATION ON CREDIT.—The amount of such credit for the taxable year shall not exceed the amount of the post war credit or refund allowed by section 454 for such taxable year.]

SEC. 453. CREDITS AGAINST VICTORY TAX.

(a) *ALLOWANCE OF CREDIT.*—There shall be allowed as a credit against the Victory tax for each taxable year—

(1) *SINGLE PERSONS.*—In the case of a single person, a married person not living with husband or wife, or an estate or trust, an amount equal to 25 per centum of the Victory tax or \$500, whichever is the lesser.

(2) *HEADS OF FAMILIES.*—In the case of the head of a family, an amount equal to 40 per centum of the Victory tax or \$1,000, whichever is the lesser.

(3) *MARRIED PERSONS.*—In the case of a married person living with husband or wife—

(A) if separate returns are filed by each spouse an amount equal to 40 per centum of the Victory tax or \$500, whichever is the lesser, or

(B) if a separate return is filed by one spouse and no return is filed by the other spouse, or if a joint return is filed under section 51 (b), only one credit not exceeding 40 per centum of the Victory tax or \$1,000, whichever is the lesser.

(4) *DEPENDENTS.*—For each dependent specified in section 25 (b), excluding as a dependent, in the case of a head of a family, one who would be excluded under section 25 (b) (2) (B), an amount equal to 2 per centum of the Victory tax or \$100, whichever is the lesser.

(b) *CHANGE OF STATUS.*—If for any taxable year the status of the taxpayer (other than a taxpayer who makes his return and pays his tax under Supplement T) with respect to his marital relationship or with respect to his dependents, changed during the taxable year, the amount of the credit provided by this section for such taxable year shall be apportioned, under rules and regulations prescribed by the Commissioner with the approval of the Secretary, in accordance with the number of months before and after such change. For the purpose of such apportionment a fractional part of a month shall be disregarded unless it amounts to more than a half month in which case it shall be considered as a month.

(c) *STATUS OF SUPPLEMENT T TAXPAYER.*—If for any taxable year a taxpayer makes his return and pays his tax under Supplement T, for the purpose of the credit provided by this section, his status for such year with respect to his marital relationship or with respect to his dependents shall be determined in accordance with the provisions of section 401.

SEC. 454. POST WAR CREDIT OR REFUND OF VICTORY TAX.

[(a) *ALLOWANCE OF CREDIT.*—As soon as practicable after date of cessation of hostilities in the present war (as defined in section 475 (b)), the following amount of the Victory tax paid for each taxable year beginning after December 31, 1942, shall be credited against any income tax or installment thereof then due from the taxpayer, and any balance shall be refunded immediately to the taxpayer:

[(1) In the case of a single person or a married person not living with husband or wife, 25 per centum of the Victory tax or \$500, whichever is the lesser.

[(2) In the case of the head of a family, 40 per centum of the Victory tax or \$1,000, whichever is the lesser. In the case of a married person living with husband or wife where separate returns are filed by each spouse, 40 per centum of the Victory tax or \$500, whichever is the lesser. In the case of a married person living with husband or wife where a separate return is filed by one spouse and no return is filed by the other spouse, or in the case of a husband and wife filing a joint return under section 51 (b), only one such credit shall be allowed and such credit shall not exceed 40 per centum of the Victory tax or \$1,000, whichever is the lesser.

[(3) For each dependent specified in section 25 (b), excluding as a dependent, in the case of a head of a family, one who would be excluded under section 25 (b) (2) (B), 2 per centum of the Victory tax or \$100, whichever is the lesser.

[(b) *CHANGE OF STATUS.*—If for any taxable year the status of the taxpayer (other than a taxpayer who makes his return and pays his tax under Supplement T) with respect to his marital relationship or with respect to his dependents, changed during the taxable year, the amount of the credit or refund provided by this section for such taxable year shall be apportioned, under rules and regulations prescribed by the Commissioner with the approval of the Secretary, in accordance

with the number of months before and after such change. For the purpose of such apportionment a fractional part of a month shall be disregarded unless it amounts to more than half a month in which case it shall be considered as a month.

[(c) STATUS OF SUPPLEMENT T TAXPAYER.—If for any taxable year a taxpayer makes his return and pays his tax under Supplement T, for the purpose of the credit or refund provided by this section, his status for such year with respect to his marital relationship or with respect to his dependents shall be determined in accordance with the provisions of section 401.

[(d) PERIOD OF LIMITATION.—No post war credit or refund of any part of the Victory tax provided in this section shall be allowed or made after 7 years from the date of cessation of hostilities in the present war, unless claim for credit or refund is filed before the expiration of such date. No interest shall be allowed on such credits or refunds.

[(e) LIMITATION OF CREDIT.—The post war credit or refund allowed by this section shall be reduced by the amount of any credit allowed under section 453.]

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SEC. 456. LIMITATION ON TAX.

The tax imposed by section 450 (Victory tax), computed without regard to the credits provided in sections [453, 454,] 453 and 466 (e), shall not exceed the excess of 90 per centum of the net income of the taxpayer for the taxable year over the tax imposed by [sections 11 (normal tax) and 12 (surtax),] *this chapter*, computed without regard to *section 450 and without regard to the credits provided in sections 31, 32, 35, and 466 (e).*

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